

Directors' report

for the year ended 30 September 2006

Your directors have pleasure in presenting their report on the activities of the Company and of the Group for the year ended 30 September 2006.

Nature of business

Netcare is an investment holding company and through its subsidiaries, joint ventures and associates in South Africa and in the United Kingdom carries on business as a private hospital group, providing an extensive range of general and specialised medical care services.

Ancillary healthcare businesses include primary healthcare services, administration and logistical services.

Financial results and review of operations

The financial results of the Group are set out on page 117 of this report. The segment report is included in note 33.

A detailed review of the activities of the Group is contained in the Chief financial officers' review on pages 28 to 37 and in the Operating reviews on pages 38 to 59.

Subsidiaries, associates and joint ventures

Changes to holdings

Changes to holdings in material subsidiaries were as follows:

- With effect from 28 February 2006
The Group acquired 100% of Prime Cure Holdings (Proprietary) Limited, a group providing managed healthcare.
- With effect from 1 May 2006
The Group disposed of its investment in Prometheus Healthcare (Proprietary) Limited.
- With effect from 12 May 2006
The Group indirectly acquired 52,6% of the interests in General Healthcare Group Limited, the leading private hospital operator in the United Kingdom.
- With effect from 26 June 2006
The Group acquired the remaining 26% in SAA Netcare Travel Clinics (Proprietary) Limited.
- With effect from 26 September 2006
The Group acquired the remaining 20% in Medicross Healthcare Group (Proprietary) Limited.
- With effect from 26 September 2006
The Group acquired the remaining 53,7% in Netpartner Investments Limited. Netpartner was previously accounted for as an associated company.

Details of interests in subsidiaries, associates and joint venture are shown on pages 164 to 168.

Subsidiaries, associates and joint ventures (continued)

Aggregate profits and losses of subsidiaries and joint venture interests

The aggregate profits and losses of the subsidiaries and joint ventures attributable to the holding company are:

	2006 Rm	2005 Rm
Profits after taxation	1 265,9	818,3
Losses	(685,2)	(87,9)
	580,7	730,4

Share capital

Authorised and issued

The authorised share capital of the Company increased from R25 million (consisting of 2,5 billion ordinary shares having a par value of 1,0 cent each) to R30 million by creating 10 million new cumulative, non-convertible, non-redeemable, non-participating preference shares with a par value of 50,0 cents each, having the rights, terms and conditions set out in Article 74 of the Articles of Association of the Company. Details of the salient terms of the preference shares are given in note 13 to the financial statements.

The following changes to the issued share capital and share premium were effected during the year:

	Number of shares million	Share capital Rm	Share premium Rm
Ordinary shares			
Opening balance	1 710,3	17,1	471,6
Issue of shares			
HPFL Trusts	107,4	1,1	688,1
Netcare Share Incentive Scheme	13,7	0,1	28,1
Netpartner Scheme of Arrangement ¹	77,7	0,8	969,9
Share issue and listing expenses			(10,2)
Repurchase and cancellation of issued shares			
From subsidiary ¹	(116,1)	(1,2)	
Direct ²	(14,3)	(0,1)	(132,7)
Capital distributions			(491,1)
Closing balance	1 778,7	17,8	1 523,7
Preference shares			
Issue of shares	10,0	3,3	646,8
Share issue expenses			(6,2)
Closing balance	10,0	3,3	640,6

Further details of the authorised and issued share capital of the Company are given in notes 11 and 13 to the financial statements.

Share capital (continued)

Issue and cancellation of issued shares¹

On 19 September 2006, 116 056 221 ordinary shares previously held by a subsidiary, were cancelled pursuant to the terms of the Netpartner unwind; furthermore on 26 September 2006, 77 653 488 ordinary shares were issued pursuant to the Netpartner Scheme of Arrangement.

Acquisition of the Company's own shares

Treasury shares acquired²

Pursuant to a special resolution passed on 27 January 2006, which granted a general authority to enable the acquisition of the Company's own shares, a subsidiary company acquired 14,3 million (2005: 6,2 million) ordinary shares at an effective cost of R132,8 million (2005: R32,2 million).

Authority

In terms of the Company's Articles of Association, members will again be requested to consider resolutions at the Annual General Meeting giving the directors general authority to permit the Company or a subsidiary of the Company to acquire its own shares.

Share incentive scheme

The Netcare Share Incentive Scheme (as amended)

Particulars relating to the share incentive scheme are given in Note 32 to the financial statements.

Property, plant and equipment

Capital expenditure incurred during the year amounted to R1 037,7 million (2005: R470,7 million).

Details of capital commitments are provided in note 28 to the financial statements.

Capital distributions

Details of the capital distributions for the year are:

	2006 Rm	2005 Rm
Interim distribution of 12,0 cents (2005: 10,0 cents) per share paid on 17 July 2006	218,1	144,1
Final distribution of 15,0 cents (2005: 15,0 cents) per share payable on 22 January 2007	177,4	273,0
	395,5	417,1

Capital distributions are accounted for on the date of declaration. As a result, the final capital distribution of 15,0 cents per share is not reflected in the financial statements for the year ended 30 September 2006.

Preference dividends

Details of the preference dividends paid for the year are:

	2006 Rm	2005 Rm
Preference share dividend rate at year end is 75% of prime	12,2	

Directors

Resigned

Dr J Shevel resigned as non-executive director with effect from 22 November 2005. Professor MB Kistnasamy resigned as non-executive director with effect from 20 June 2006.

Appointed

Dr RN Noach was appointed as an executive director with effect from 17 July 2006. Professor TR Mokoena, Advocate K Moroka and Dr AA Ngcaba were appointed as non-executive directors with effect from 17 July 2006.

Further information

The composition of the board of directors is given on pages 18 and 19 of the annual report. The remuneration of Netcare's directors is set out on pages 114 and 115.

Events after balance sheet date

Issue of convertible bonds

Netcare issued unsecured bonds which are convertible into Netcare ordinary shares in 2011. The convertible bonds were issued to international institutional investors and were listed on the Singapore Exchange Securities Trading Limited on 12 October 2006.

The principal amount constituting the total issue price for the convertible bonds is R1,7 billion. The convertible bonds carry a fixed coupon rate of 6% per annum payable semi-annually in arrears at a price of R15,30 per Netcare share, and matures five years from the date of issue. The conversion price represents a premium of 25,4% over the prevailing Netcare share price at the date of issue.

Acquisition of remaining interest in associate

Currently, the Group owns a 43,75% interest in the Community Healthcare Group (Proprietary) Limited ("CHG"), which is accounted for as an associate (refer to page 166 of the financial statements).

On 13 November 2006, the Company ratified an agreement whereby it will acquire the remaining 56,25% interest in CHG, for a purchase consideration of R40,0 million in cash plus the issue of 14 200 000 Netcare shares to the vendors. The agreement is subject to certain conditions precedent, one of which is approval by the competition authorities.

Company secretary

The company secretary of Netcare is J Wolpert. His business and postal addresses appear on page 170.

Special resolutions

The following special resolutions were registered during the year:

Network Healthcare Holdings Limited

At the AGM of Netcare shareholders convened on 27 January 2006, the following special resolution was passed by the Company:

- A general authority was granted to the Company and its subsidiaries to acquire up to 20% of the Company's issued share capital from time-to-time in terms of section 85(2) and 85(3) of the Companies Act and the JSE Listings Requirements.

At a general meeting of Netcare shareholders convened on 19 June 2006, the following special resolutions were passed by the Company:

- Approval was obtained for the acquisition by the Company, in terms of section 85 of the Companies Act, of 116 056 221 ordinary shares in the Company held by certain wholly owned subsidiary companies as treasury shares.
- Approval was obtained to increase the authorised share capital of the Company by creating 10 000 000 cumulative, non-convertible, non-redeemable, non-participating preference shares with a par value of 50,0 cents each. Approval was obtained to amend the Memorandum of Association of the Company to reflect the new share capital structure of the Company.
- Approval was obtained for the terms attaching to the new preference shares created in terms of the above special resolution and to incorporate such terms and conditions into the Company's Articles of Association as new Article 74.
- Approval was obtained to include a condition in the Company's Memorandum of Association to provide that Article 74 of the Articles of Association may not be deleted or altered unless certain consent has been obtained.

Subsidiaries

The following special resolutions were passed by subsidiary companies:

- Changing the name of Basfour 2078 (Proprietary) Limited to Netcare Health Partners for Life Finance Company (Proprietary) Limited.
- Changing the name of Scarlet Ibis Investments 42 (Proprietary) Limited to Patient Care and Passionate People Finance Company (Proprietary) Limited.
- Changing the name of Netcare Investments (Proprietary) Limited to Netcare 911 Queenstown (Proprietary) Limited.
- Changing the name of Melonetix Emergency Services (Proprietary) Limited to Thuso Emergency Services (Proprietary) Limited.
- Changing the name of Akasia Kliniek (Proprietary) Limited to Nalithemba Hospitals (Proprietary) Limited.
- Increase in the authorised share capital of Netcare Finance Company (Proprietary) Limited by creating 1 960 000 000 non-cumulative, non-convertible, non-redeemable preference shares with a par value of R0,0001 each.
- Increase in the authorised share capital of Moody Blue Trade and Invest 63 (Proprietary) Limited by creating 20 000 cumulative, non-convertible, redeemable preference shares with a par value of 0,001 cents each.
- Changing the name of Netcare Molecular Medicine Institute (Proprietary) Limited to Netcare Institute of Cellular and Molecular Medicine (Proprietary) Limited.
- Changing the name of Moody Blue Trade and Invest 63 (Proprietary) Limited to Netcare Preference Share Investments (Proprietary) Limited.